

AUDITING PROCEDURES REPORT

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Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>CITY OF BUCHANAN</u>	County BERRIEN
Audit Date June 30, 2005	Opinion Date October 5, 2005	Date Accountant Report Submitted To State: November 23, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 511 Renaissance Drive, Suite 120	City Saint Joseph	State MI	ZIP 49085
Accountant Signature 			

City of Buchanan, Michigan

**Financial Report
with Supplemental Information
June 30, 2005**

City of Buchanan, Michigan

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Independent Auditor's Report

To the City Council
City of Buchanan, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Buchanan as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Buchanan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Buchanan as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the City Council
City of Buchanan, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Buchanan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2005 on our consideration of the City of Buchanan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

October 5, 2005

City of Buchanan, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Buchanan's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in the discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2005:

- The City's total net assets increased by 2 percent, from \$12,511,302 in 2004 to \$12,804,323 in 2005.
- Net assets for component units increased by \$43,834. The main reasons for this increase were continued revenue tax capture growth and sale of capital assets.
- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$24,195 this year and \$190,607 since 2002. The City reacted by reducing operationally budgeted items as well as capital expenditures.
- Undesignated General Fund fund balance decreased by \$417,481, after completing the street projects in 2004-2005.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Buchanan, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the current year's net assets, compared to the prior year.

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current assets	\$ 3,542,768	\$ 3,745,965	\$ 797,786	\$ 786,468	\$ 4,340,554	\$ 4,532,433
Noncurrent assets	<u>6,495,638</u>	<u>6,168,597</u>	<u>4,555,705</u>	<u>4,733,687</u>	<u>11,051,343</u>	<u>10,902,284</u>
Total assets	10,038,406	9,914,562	5,353,491	5,520,155	15,391,897	15,434,717
Liabilities						
Current liabilities	218,168	249,320	239,321	103,793	457,489	353,113
Long-term liabilities	<u>918,649</u>	<u>1,106,253</u>	<u>1,211,436</u>	<u>1,464,049</u>	<u>2,130,085</u>	<u>2,570,302</u>
Total liabilities	<u>1,136,817</u>	<u>1,355,573</u>	<u>1,450,757</u>	<u>1,567,842</u>	<u>2,587,574</u>	<u>2,923,415</u>
Net Assets						
Invested in capital assets -						
Net of related debt	5,545,662	5,155,526	3,223,764	3,274,547	8,769,426	8,430,073
Restricted	1,102,278	979,482	179,139	598,669	1,281,417	1,578,151
Unrestricted (deficit)	<u>2,253,649</u>	<u>2,423,981</u>	<u>499,831</u>	<u>79,097</u>	<u>2,753,480</u>	<u>2,503,078</u>
Total net assets	<u>\$ 8,901,589</u>	<u>\$ 8,558,989</u>	<u>\$ 3,902,734</u>	<u>\$ 3,952,313</u>	<u>\$ 12,804,323</u>	<u>\$ 12,511,302</u>

The City's combined net assets increased 2 percent from a year ago - increasing from \$12,511,302 to \$12,804,323. As we look at the governmental activities separately from the business-type activities, we can see that governmental activities net assets increased 4 percent from \$8,558,989 to \$8,901,589, while business-type activities decreased slightly by 1 percent from \$3,952,313 to \$3,902,734.

City of Buchanan, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the current year and as compared to the prior fiscal year.

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue						
Program revenue:						
Charges for services	\$ 114,128	\$ 84,550	\$ 1,089,230	\$ 1,021,075	\$ 1,203,358	\$ 1,105,625
Operating grants and contributions	494,618	615,462	-	-	494,618	615,462
Capital grants and contributions	603,026	143,414	-	46,881	603,026	190,295
General revenue:						
Property taxes	1,323,367	1,267,655	-	-	1,323,367	1,267,655
State-shared revenue	671,332	695,527	-	-	671,332	695,527
Unrestricted investment earnings	94,997	54,249	14,945	8,208	109,942	62,457
Miscellaneous	138,624	194,854	-	-	138,624	194,854
Transfers and other revenue	(21,203)	(21,605)	21,203	21,605	-	-
Total revenue	3,418,889	3,034,106	1,125,378	1,097,769	4,544,267	4,131,875
Program Expenses						
General government	493,016	838,943	-	-	493,016	838,943
Public safety	980,683	882,350	-	-	980,683	882,350
Public works	1,382,023	978,003	-	-	1,382,023	978,003
Health and welfare	55,132	47,140	-	-	55,132	47,140
Community and economic development	112,769	303,206	-	-	112,769	303,206
Interest on long-term debt	52,666	55,994	-	-	52,666	55,994
Water and sewer	-	-	1,174,957	1,200,098	1,174,957	1,200,098
Total program expenses	3,076,289	3,105,636	1,174,957	1,200,098	4,251,246	4,305,734
Change in Net Assets	\$ 342,600	\$ (71,530)	\$ (49,579)	\$ (102,329)	\$ 293,021	\$ (173,859)

City of Buchanan, Michigan

Management's Discussion and Analysis (Continued)

During the past fiscal year, governmental activities revenues increased from \$3,034,106 to \$3,419,890, an increase of approximately 13 percent. Conversely, governmental expenses decreased from \$3,105,636 to \$3,076,289, a decrease of approximately 1 percent. Approximately \$423,000 of the revenue increase relates to an increase in the grant revenue received for the Front Street Streetscape Project. The offsetting expenditures for this project increased by only \$360,000. Another significant decrease resulted from expenditures related to the following two projects charged to general government expenditures. The amounts expended for the South Days Avenue and the North Days Avenue/McCoy Creek Culvert Projects in fiscal 2004 totaled approximately \$436,000. In fiscal 2005, approximately \$363,000 was expended for the North Days Avenue/McCoy Creek Culvert Project (the South Days Project was completed in 2004).

Business-type revenues increased from \$1,097,769 to \$1,125,378, an increase of approximately \$28,000. Charges for services increased approximately \$68,000 during fiscal 2005 due to rate increases. In addition, approximately \$47,000 of contributed capital was received from the Front Street Fund in 2004 for sewer and water additions related to the Front Street Streetscape Project, which was not received in 2005. These two items explain a net increase of approximately \$21,000. In addition, business-type expenses decreased from \$1,200,098 to \$1,174,957 or by the amount of \$25,141. This decrease relates to efforts on management's part to control expenditures in the Enterprise Fund, while increases related revenues.

Governmental Activities

- The City spent \$567,000 on the completion of the Frontstreet Streetscape Project and \$360,000 on the completion of the North Days/McCoy Creek Culvert Project.
- The City received a \$46,440 grant from FEMA for the fire department to purchase 12 self-contained breathing apparatuses, face pieces, and cylinders.
- The City sold the MRF building for \$25,000 and received \$17,500 for the sale of the MRF equipment. Both sales were made to the Southeast Berrien County Landfill.

Business-type Activities

The Water and Sewer Fund incurred a \$50,000 loss from operations. A utility rate study was commissioned during the fiscal year. Rates were increased approximately 7 percent overall as of July 1, 2004. As a result of the rate study, an additional rate increase became effective as of July 1, 2005 for fiscal 2006.

Component Units

Component units include funds such as the Downtown Development Corporation, Andrews Farm TIFA, DDA TIFA, and the Brownfield Redevelopment Fund.

City of Buchanan, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

The General Fund pays for most of the City's governmental services. The primary services provided include police and fire services, administrative services, public services, and parks and recreation.

As shown in the required supplemental information, the City originally budgeted operational expenditures of \$2,004,240. During the course of the year, the City amended the budget and budgeted expenditures of \$3,111,931. While actual operating results were better than budgeted, the General Fund experienced a \$355,075 loss. The significant budget to actual difference was a result of the following:

- State-shared revenue decreased by \$24,195 from prior year
- Property tax revenue increased by \$4,315 over prior year
- \$382,267 was expended on the McCoy Creek Culvert/North Days Project
- \$35,213 was expended on common area improvements
- The City expended \$780,156 for downtown streetscape improvements on South Days Avenue and Front Street with an MEDC Grant of \$700,000.

Capital Asset and Debt Administration

The City continued making payments on revenue and general obligation bonds incurred to construct major capital related to infrastructure

Economic Factors and Next Year's Budgets and Rates

The City's budget for next fiscal year reflects another decrease in stated-shared revenue. Current economic conditions in the state of Michigan have put statutory revenue sharing at risk of being reduced. The Commission has adopted a conservative budget that retains current fund balance, but also facilitates community priorities and quality services.

The City will begin work on the farmers' market in the next fiscal year. A \$40,000 USDA Grant has been awarded, with the total project estimated at \$204,840. In August 2005, the Commission approved spending the remaining designated General Fund balance of \$102,292 toward this project, with the balance to be paid from General Fund balance. The farmers' market is scheduled to be operational in December 2005.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the City manager's office.

City of Buchanan, Michigan

Statement of Net Assets June 30, 2005

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		
Assets				
Cash and cash equivalents (Note 3)	\$ 39,450	\$ 33,342	\$ 72,792	\$ 59,015
Investments (Note 3)	3,342,798	394,805	3,737,603	983,242
Receivables - Net:				
Taxes	7,164	-	7,164	2,509
Customers	-	160,475	160,475	11,667
Other	7,350	-	7,350	-
Due from other governmental units	146,006	-	146,006	4,371
Prepaid costs and other assets	-	30,025	30,025	-
Notes receivable	-	-	-	165,941
Restricted assets - Future debt service	-	179,139	179,139	-
Capital assets - Net (Note 4)	6,495,638	4,555,705	11,051,343	-
Total assets	10,038,406	5,353,491	15,391,897	1,226,745
Liabilities				
Accounts payable	78,526	32,471	110,997	12,482
Accrued and other liabilities	8,111	13,163	21,274	-
Customer deposits	-	41,323	41,323	-
Capital leases (Note 6):				
Due within one year	13,193	28,142	41,335	-
Due in more than one year	6,783	28,799	35,582	-
Accrued employee benefits:				
Due within one year	48,338	14,222	62,560	-
Due in more than one year	51,866	17,637	69,503	-
Long-term debt (Note 7):				
Due within one year	70,000	110,000	180,000	26,428
Due in more than one year	860,000	1,165,000	2,025,000	211,425
Total liabilities	1,136,817	1,450,757	2,587,574	250,335
Net Assets				
Invested in capital assets - Net of related debt	5,545,662	3,223,764	8,769,426	-
Restricted:				
Streets	691,223	-	691,223	-
Debt service	-	179,139	179,139	-
Cemetery perpetual care	315,112	-	315,112	-
Small cities grant program	95,943	-	95,943	-
Unrestricted	2,253,649	499,831	2,753,480	976,410
Total net assets	\$ 8,901,589	\$ 3,902,734	\$ 12,804,323	\$ 976,410

City of Buchanan, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 493,016	\$ 114,128	\$ 37,625	\$ -
Public safety	980,683	-	-	46,440
Public works	1,382,023	-	346,295	556,586
Recreation and culture	55,132	-	14,890	-
Community economic development	112,769	-	95,808	-
Interest on long-term debt	52,666	-	-	-
Total governmental activities	3,076,289	114,128	494,618	603,026
Business-type activities - Water and sewer	1,174,957	1,089,230	-	-
Total primary government	\$ 4,251,246	\$ 1,203,358	\$ 494,618	\$ 603,026
Component units:				
TIFA Andrews Farm	\$ 53,281	\$ -	\$ -	\$ -
TIFA Downtown Development Authority	25,203	-	-	-
Downtown Development Authority	35,671	2,247	25,500	-
Brownfield Redevelopment Authority	49,262	-	30,428	-
Dial-A-Ride	129,002	9,277	71,012	-
Total component units	\$ 292,419	\$ 11,524	\$ 126,940	\$ -
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (341,263)	\$ -	\$ (341,263)	\$ -
(934,243)	-	(934,243)	-
(479,142)	-	(479,142)	-
(40,242)	-	(40,242)	-
(16,961)	-	(16,961)	-
(52,666)	-	(52,666)	-
(1,864,517)	-	(1,864,517)	-
-	(85,727)	(85,727)	-
(1,864,517)	(85,727)	(1,950,244)	-
-	-	-	(53,281)
-	-	-	(25,203)
-	-	-	(7,924)
-	-	-	(18,834)
-	-	-	(48,713)
-	-	-	(153,955)
1,323,367	-	1,323,367	140,940
671,332	-	671,332	-
94,997	14,945	109,942	25,479
138,624	-	138,624	31,370
(21,203)	21,203	-	-
2,207,117	36,148	2,243,265	197,789
342,600	(49,579)	293,021	43,834
8,558,989	3,952,313	12,511,302	932,576
\$ 8,901,589	\$ 3,902,734	\$ 12,804,323	\$ 976,410

City of Buchanan, Michigan

Governmental Funds Balance Sheet June 30, 2005

	General	Capital Projects	Front Street - Streetscape	Other Non- major Governmental Funds	Total Governmental Funds
Assets					
Cash	\$ 5,350	\$ 10,241	\$ 50	\$ 23,809	\$ 39,450
Investments	1,205,994	1,041,202	-	1,095,602	3,342,798
Receivables - Net:					
Taxes	7,164	-	-	-	7,164
Other	5,305	-	-	2,045	7,350
Due from other governmental units	79,327	-	10,664	56,015	146,006
Due from other funds	9,945	-	-	-	9,945
Total assets	\$ 1,313,085	\$ 1,051,443	\$ 10,714	\$ 1,177,471	\$ 3,552,713
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 39,212	\$ 45	\$ 769	\$ 38,500	\$ 78,526
Accrued and other liabilities	7,211	-	-	900	8,111
Due to other funds	-	-	9,945	-	9,945
Deferred revenue	7,163	-	-	6,245	13,408
Total liabilities	53,586	45	10,714	45,645	109,990
Fund Balances					
Reserved	102,292	-	-	-	102,292
Unreserved, reported in:					
General Fund	1,157,207	-	-	-	1,157,207
Special Revenue Funds	-	-	-	816,714	816,714
Capital Projects Funds	-	1,051,398	-	-	1,051,398
Permanent Funds	-	-	-	315,112	315,112
Total fund balances	1,259,499	1,051,398	-	1,131,826	3,442,723
Total liabilities and fund balances	\$ 1,313,085	\$ 1,051,443	\$ 10,714	\$ 1,177,471	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	6,495,638
Deferred revenue not recorded on government-wide financial statements	13,408
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(1,050,180)
Net assets of governmental activities	\$ 8,901,589

City of Buchanan, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2005

	General	Capital Projects	Front Street - Streetscape	Other Governmental Funds	Total Governmental Funds
Revenue					
Property taxes	\$ 1,001,052	\$ -	\$ -	\$ 288,155	\$ 1,289,207
Licenses and permits	88,606	-	-	-	88,606
Federal grants	-	46,440	556,586	72,018	675,044
State-shared revenues and grants	671,332	-	-	346,295	1,017,627
Charges for services	64,864	-	-	-	64,864
Fines and forfeitures	4,953	-	-	-	4,953
Interest and rentals	41,775	25,973	324	27,475	95,547
Other	174,043	37,390	-	7,117	218,550
Total revenue	2,046,625	109,803	556,910	741,060	3,454,398
Expenditures					
General government	791,976	11,266	-	-	803,242
Public safety	939,874	47,720	-	-	987,594
Public works	382,562	13,547	566,565	386,669	1,349,343
Recreation and culture	40,905	10,187	-	-	51,092
Community economic development	34,500	1,100	-	77,169	112,769
Other	59,230	-	-	-	59,230
Debt service	-	-	-	122,666	122,666
Total expenditures	2,249,047	83,820	566,565	586,504	3,485,936
Excess of Revenue Over (Under) Expenditures	(202,422)	25,983	(9,655)	154,556	(31,538)
Other Financing Sources (Uses)					
Capital lease financing	20,365	-	-	-	20,365
Transfers in	548,461	125,941	545,555	335,908	1,555,865
Transfers out	(701,114)	-	(537,834)	(338,120)	(1,577,068)
Total other financing sources (uses)	(132,288)	125,941	7,721	(2,212)	(838)
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	(334,710)	151,924	(1,934)	152,344	(32,376)
Fund Balances - Beginning of year	1,594,209	899,474	1,934	979,482	3,475,099
Fund Balances - End of year	<u>\$ 1,259,499</u>	<u>\$ 1,051,398</u>	<u>\$ -</u>	<u>\$ 1,131,826</u>	<u>\$ 3,442,723</u>

City of Buchanan, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds \$ (32,376)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Current year capital additions	1,070,417
Current year capital asset disposals (net)	(110,889)
Current year allocation of depreciation	(632,487)

Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	(14,476)
--	----------

Repayment of debt principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	83,460
---	--------

Proceeds from issuance of debt is a revenue in the governmental funds, but not in the statement of activities	(20,365)
---	----------

Increases in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities	(684)
---	-------

Change in Net Assets of Governmental Activities \$ 342,600

City of Buchanan, Michigan

Proprietary Funds Statement of Net Assets June 30, 2005

	Water and Sewer
Assets	
Current assets:	
Cash and cash equivalents	\$ 33,342
Receivables - Net	160,475
Investments	<u>394,805</u>
Total current assets	588,622
Noncurrent assets:	
Restricted assets - Investments	179,139
Capital assets	4,555,705
Other assets	<u>30,025</u>
Total noncurrent assets	<u>4,764,869</u>
Total assets	5,353,491
Liabilities	
Current liabilities:	
Accounts payable	32,471
Accrued and other liabilities	45,022
Customer deposits	41,323
Current portion of long-term debt	<u>138,142</u>
Total current liabilities	256,958
Long-term debt - Net of current portion	<u>1,193,799</u>
Total liabilities	<u>1,450,757</u>
Net Assets	
Investment in capital assets - Net of related debt	3,223,764
Restricted for debt service	179,139
Unrestricted	<u>499,831</u>
Total net assets	<u>\$ 3,902,734</u>

City of Buchanan, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2005

	<u>Enterprise Fund</u>
Operating Revenue	
Charges for services:	
Water	\$ 291,881
Sewer	490,426
Ready to serve	235,235
Penalties	21,081
Other	<u>50,607</u>
Total operating revenue	1,089,230
Operating Expenses	
Water	300,437
Sewer and industrial pre-treatment	548,218
Depreciation and amortization	<u>222,194</u>
Total operating expenses	<u>1,070,849</u>
Operating Income	18,381
Nonoperating Revenue (Expenses)	
Investment income	14,945
Interest expense	(77,599)
Loss on disposal of assets	<u>(26,509)</u>
Loss - Before transfers	(70,782)
Transfers In	<u>21,203</u>
Change in Net Assets	(49,579)
Net Assets - Beginning of year	<u>3,952,313</u>
Net Assets - End of year	<u><u>\$ 3,902,734</u></u>

City of Buchanan, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2005

	Enterprise - Water and Sewer
Cash Flows from Operating Activities	
Receipts from customers	\$ 1,087,760
Payments to suppliers	(415,262)
Payments to employees	<u>(427,452)</u>
Net cash provided by operating activities	245,046
Cash Flows from Capital and Related Financing Activities	
Operating transfers from other funds	21,203
Purchase of capital assets	(67,778)
Principal and interest paid on capital debt	<u>(204,799)</u>
Net cash used in capital and related financing activities	(251,374)
Cash Flows from Investing Activities	
Interest received on investments	14,945
Purchase of investment securities	<u>(9,056)</u>
Net cash provided by investing activities	<u>5,889</u>
Net Decrease in Cash and Cash Equivalents	(439)
Cash and Cash Equivalents - Beginning of year	33,781
Cash and Cash Equivalents - End of year	<u><u>\$ 33,342</u></u>
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating income	\$ 18,381
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation and amortization	222,194
Changes in assets and liabilities:	
Receivables	(5,644)
Accounts payable and accrued liabilities	<u>10,115</u>
Net cash provided by operating activities	<u><u>\$ 245,046</u></u>

City of Buchanan, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2005

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents (Note 3)	\$ 39,091
Investments (Note 3)	<u>17,962</u>
Total assets	<u>\$ 57,053</u>
Liabilities	
Due to taxpayers	\$ 17,630
Due to other governmental units	432
Other liabilities	<u>38,991</u>
Total liabilities	<u>\$ 57,053</u>

City of Buchanan, Michigan

Component Units Statement of Net Assets June 30, 2005

	TIFA TIFA Andrews Farm	TIFA Downtown Development Corporation	Downtown Development Corporation	Brownfield Redevelopment Authority	Dial-A-Ride	Totals
Assets						
Cash	\$ 5,093	\$ 1,466	\$ 3,343	\$ 3,926	\$ 45,187	\$ 59,015
Investments	716,510	117,808	61,135	78,088	9,701	983,242
Accounts receivable	-	-	11,667	-	-	11,667
Taxes receivable	-	-	-	-	2,509	2,509
Due from other governmental units	-	-	-	-	4,371	4,371
Notes receivable	-	-	147,952	17,989	-	165,941
Total assets	721,603	119,274	224,097	100,003	61,768	1,226,745
Liabilities						
Accounts payable	-	29	12	2,977	9,464	12,482
Accrued and other liabilities	-	-	-	-	-	-
Long-term debt:						
Due within one year	-	-	-	26,428	-	26,428
Due in more than one year	-	-	-	211,425	-	211,425
Total liabilities	-	29	12	240,830	9,464	250,335
Net Assets - Unrestricted	\$ 721,603	\$ 119,245	\$ 224,085	\$ (140,827)	\$ 52,304	\$ 976,410

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Buchanan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Buchanan:

Reporting Entity

The City of Buchanan is governed by an elected five-member commission. In accordance with accounting principles generally accepted in the United States of America, the accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable.

Discretely Presented Component Units - The following component units are reported within the component units column in the financial statements. They are reported in a separate column to emphasize that they are legally separate from the City of Buchanan.

- a. The Downtown Development Authority and TIFA were created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The authorities' governing bodies, which consists of eight individuals each, is selected by the City Commission. In addition, the authorities' budgets are subject to approval by the City Commission.
- b. Andrews Farm TIFA was created to correct and prevent deterioration in the industrial park, encourage historical preservation, and to promote economic growth within the industrial district. The Authority's governing body, which consists of nine individuals, is selected by the City Commission. In addition, the Authority's budget is subject to approval by the City Commission.
- c. Brownfield Redevelopment was created to clean up State of Michigan designated Brownfield sites within the City of Buchanan and prepare these sites for new development. The Authority's governing body, which consists of five individuals, is selected by the City Commission. In addition, the Authority's budget is subject to approval by the City Commission.
- d. Dial-A-Ride was created to provide public transportation to local residents. Dial-A-Ride's budget is subject to approval by the City Commission.

Note 1 - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal period. Conversely, for special assessments and federal grant reimbursements that will be collected after the period of availability, receivables have been recorded along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Projects Fund accounts for assets being accumulated for future capital expenditures and other large projects.

The Front Street - Streetscape Fund is a Special Revenue Fund that accounts for grant revenue restricted for the beautification of Front Street.

The City reports the following major proprietary fund:

The Water and Sewer Fund is used to account for the provision of services to citizens that are financed primarily by user charges for the provision of those services.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

Note 1 - Summary of Significant Accounting Policies (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 16, at which time penalties and interest are assessed.

The 2004 taxable valuation of the City totaled \$75.9 million (a portion of which is abated and a portion of which is captured by the TIFA and DDA), on which taxes levied consisted of 17.1000 mills for operating purposes (13.1000 mills is allocated to the General Fund and 4.0000 mills is allocated to the Street Repair and Maintenance Fund) and 0.5000 mills for the Dial-A-Ride Component Unit. This resulted in approximately \$1,300,000 for operating and \$37,000 for transportation services. These amounts are recognized in the respective General, Street Repair and Maintenance, and Component Unit Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund, Special Revenue Fund, and Enterprise Funds are generally allocated to each fund using a weighted average.

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in the government-wide and proprietary fund financial statements.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	20 years
Buildings and building improvements	10 to 100 years
Vehicles	3 to 25 years
Machinery and equipment	5 to 20 years
Office furnishings and equipment	3 to 10 years
Water and sewer distribution systems	15 to 75 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2004	\$ (185,452)
Current year building permit revenue	12,820
Related expenses - Direct costs	<u>(40,844)</u>
Shortfall at June 30, 2005	<u>\$ (213,476)</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated one bank for the deposit of its funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$172,901 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Buchanan, Michigan

Notes to Financial Statements June 30, 2005

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Ginnie Mae Pooled Fund	\$ 256,330	7.04 years
Federal Home Loan Mortgage	695,002	1.94 years
Fed Natl Mortgage Assn	765,235	2.28 years
Federal Home Loan Banks	1,086,703	2.13 years
U.S. Treasury Notes	1,546,707	2.31 years

Concentration of Credit Risk

The City places no limit on the amount that may be invested in any one issuer. More than 5 percent of the City's investments are in the following investments:

Investment	Percent
Ginnie Mae Pooled Fund	6
Federal Home Loan Mortgage	16
Fed Natl Mortgage Assn	18
Federal Home Loan Banks	25
U.S. Treasury Notes	35
Total	100

City of Buchanan, Michigan

Notes to Financial Statements June 30, 2005

Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2004	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2005
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 563,218	\$ -	\$ 4,000	\$ -	\$ 567,218
Construction in progress	371,903	(1,320,734)	948,831	-	-
Subtotal	935,121	(1,320,734)	952,831	-	567,218
Capital assets being depreciated:					
Roads and sidewalks	8,795,566	1,320,734	-	-	10,116,300
Buildings and improvements	1,397,308	-	3,070	(207,916)	1,192,462
Vehicles	1,477,569	-	40,385	-	1,517,954
Machinery and equipment	484,665	-	64,853	(122,259)	427,259
Office furnishings and equipment	46,037	-	9,278	-	55,315
Subtotal	12,201,145	1,320,734	117,586	(330,175)	13,309,290
Accumulated depreciation:					
Roads and sidewalks	4,490,272	-	455,377	-	4,945,649
Buildings and improvements	985,570	-	39,466	(97,027)	928,009
Vehicles	1,035,669	-	102,534	-	1,138,203
Machinery and equipment	419,558	-	28,710	(122,259)	326,009
Office furnishings and equipment	36,600	-	6,400	-	43,000
Subtotal	6,967,669	-	632,487	(219,286)	7,380,870
Net capital assets being depreciated	5,233,476	1,320,734	(514,901)	(110,889)	5,928,420
Net capital assets	\$ 6,168,597	\$ -	\$ 437,930	\$ (110,889)	\$ 6,495,638

City of Buchanan, Michigan

Notes to Financial Statements June 30, 2005

Note 4 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2004	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2005
Capital assets not being depreciated - Land	\$ 9,971	\$ -	\$ -	\$ -	\$ 9,971
Capital assets being depreciated:					
Water and sewer distribution systems	4,831,262	-	-	(26,509)	4,804,753
Buildings and building improvements	2,243,450	-	20,785	-	2,264,235
Machinery and equipment	712,346	-	46,993	-	759,339
Subtotal	7,787,058	-	67,778	(26,509)	7,828,327
Accumulated depreciation:					
Water and sewer distribution systems	1,148,085	-	110,776	-	1,258,861
Buildings and building improvements	1,401,992	-	42,875	-	1,444,867
Machinery and equipment	513,265	-	65,600	-	578,865
Subtotal	3,063,342	-	219,251	-	3,282,593
Net capital assets being depreciated	4,723,716	-	(151,473)	(26,509)	4,545,734
Net capital assets	\$ 4,733,687	\$ -	\$ (151,473)	\$ (26,509)	\$ 4,555,705

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 15,197
Public safety	88,799
Public works	513,623
Culture and recreation	14,868
Total governmental activities	\$ 632,487
Business-type activities - Water and sewer	\$ 219,251

City of Buchanan, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Interfund

Interfund transfers reported in the fund financial statements are comprised of the following:

	Transfers Out			
	General Fund	Front Street - Streetscape Fund	Other Governmental Funds	Total Primary Government
Transfers in:				
General Fund	\$ -	\$ 537,834	\$ 10,627	\$ 548,461
Capital Projects Fund	125,941	-	-	125,941
Front Street - Streetscape	545,555	-	-	545,555
Other governmental funds	29,618	-	306,290	335,908
Proprietary fund	-	-	21,203	21,203
Total primary government	<u>\$ 701,114</u>	<u>\$ 537,834</u>	<u>\$ 338,120</u>	<u>\$ 1,577,068</u>

The City transfers funds raised by the tax millage from the Street Repairs and Maintenance Fund to the Major and Local Roads Funds to fund street repairs. The transfer from the Major Roads Fund to the Debt Service Fund represents the movement of resources to be used to service Major Street Fund debt. The General Fund transfers funds to the Capital Project Fund to finance future capital expenditures. In the current year, the General Fund transferred approximately \$546,000 to the Front Street Streetscape Fund to pay invoices. Upon receipt of grant reimbursements from the State, the Front Street Streetscape Fund transferred the money to repay the General Fund, for a total of \$538,000 of transfers to the General Fund in the current year.

City of Buchanan, Michigan

Notes to Financial Statements June 30, 2005

Note 6 - Capital Leases

The City has entered into two lease agreements as lessee for financing the purchase of a police vehicle and a heavy-duty sewer truck. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Equipment lease payable	\$ 13,071	\$ 20,365	\$ (13,460)	\$ 19,976	\$ 13,193
Business-type Activities					
Equipment lease payable	\$ 84,141	\$ -	\$ (27,200)	\$ 56,941	\$ 28,142

The future minimum lease obligations and the net present value are as follows:

	Governmental Activities			Business-type Activities		
	Present Value	Amount Representing Interest	Total Minimum Lease Payments	Present Value	Amount Representing Interest	Total Minimum Lease Payments
2006	\$ 13,193	\$ 1,083	\$ 14,276	\$ 28,142	\$ 2,047	\$ 30,189
2007	6,783	339	7,122	28,799	1,376	30,175
Total	<u>\$ 19,976</u>	<u>\$ 1,422</u>	<u>\$ 21,398</u>	<u>\$ 56,941</u>	<u>\$ 3,423</u>	<u>\$ 60,364</u>

City of Buchanan, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds - Michigan					
Transportation Bonds	\$ 1,000,000	\$ -	\$ 70,000	\$ 930,000	\$ 70,000
Business-type Activities					
Revenue bonds - Series 2000A					
State Revenue Sharing Bond	\$ 1,185,000	\$ -	\$ 40,000	\$ 1,145,000	\$ 45,000
Revenue bonds - Series 1997A					
State Revenue Sharing Bond	190,000	-	60,000	130,000	65,000
Total business-type activities	\$ 1,375,000	\$ -	\$ 100,000	\$ 1,275,000	\$ 110,000
Component Unit Activities					
State of Michigan CDBG Loan	\$ 264,281	\$ -	\$ 26,428	\$ 237,853	\$ 26,428

City of Buchanan, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 70,000	\$ 48,558	\$ 118,558	\$ 110,000	\$ 69,139	\$ 179,139
2007	80,000	44,694	124,694	110,000	63,322	173,322
2008	80,000	40,492	120,492	50,000	59,093	109,093
2009	80,000	36,078	116,078	55,000	56,349	111,349
2010	85,000	31,466	116,466	55,000	53,434	108,434
2011-2015	535,000	76,175	611,175	340,000	215,104	555,104
2016-2020	-	-	-	450,000	101,900	551,900
2021	-	-	-	105,000	3,150	108,150
Total	\$ 930,000	\$ 277,463	\$ 1,207,463	\$ 1,275,000	\$ 621,491	\$ 1,896,491

	Component Unit Activities		
	Principal	Interest	Total
2006	\$ 26,428	\$ -	\$ 26,428
2007	26,428	-	26,428
2008	26,428	-	26,428
2009	26,428	-	26,428
2010	26,428	-	26,428
2011-2015	105,713	-	105,713
Total	\$ 237,853	\$ -	\$ 237,853

Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefit claims, and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation and property liability. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 9 - Pension Plan

Plan Description - The City participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 5 percent of gross wages.

Annual Pension Cost - For the year ended June 30, 2005, the City's annual pension cost of \$13,396 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8.0 investment rate of return, including an inflation component of 4.5 percent, (b) projected salary increases of 4.5 percent per year, attributable to inflation, (c) additional projected salary increases ranging from 0 percent to 8.40 percent per year depending on age, attributable to seniority/merit, and (d) no postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis.

City of Buchanan, Michigan

Notes to Financial Statements June 30, 2005

Note 9 - Pension Plan (Continued)

Three year trend information is as follows:

	Fiscal Year Ended June 30		
	2003	2004	2005
General Employees' Retirement System:			
Annual pension costs (APC)	\$ -	\$ -	\$ 13,396
Percentage of APC contributed	-	-	100%
Net pension obligation	-	-	-
Actuarial Valuation as of December 31			
	2002	2003	2004
Actuarial value of assets	\$ 5,939,789	\$ 6,115,078	\$ 6,227,274
Actuarial Accrued Liability (ALL) (entry age)	4,378,109	4,723,873	5,202,838
Overfunded ALL	1,561,680	1,391,205	1,024,436
Funded ratio	135.7%	129.5%	119.7%
Covered payroll	1,154,599	1,020,862	1,163,218
UAAL as a percentage of covered payroll	N/A	N/A	N/A

Note 10 - Subsequent Event

Subsequent to year end, the City Commission entered into an agreement for engineering services for the farmers' market project totaling \$190,000.

Required Supplemental Information

City of Buchanan, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 995,995	\$ 995,995	\$ 991,586	\$ (4,409)
State sources	682,853	682,853	671,332	(11,521)
Fees and permits	86,200	86,200	88,606	2,406
Fines and forfeitures	3,600	3,600	4,953	1,353
Charges for services	54,150	54,150	64,864	10,714
Interest income	56,000	56,000	51,241	(4,759)
Other	94,063	94,063	144,043	49,980
Transfer from other funds	21,000	21,000	548,461	527,461
Transfer from component units	30,000	30,000	30,000	-
Total revenue	2,023,861	2,023,861	2,595,086	571,225
Expenditures				
General government:				
City commission	35,548	549,871	407,712	142,159
City manager	102,304	118,405	107,977	10,428
Elections	20,475	21,475	19,543	1,932
Assessor	31,550	31,550	30,968	582
City clerk	47,624	45,915	44,514	1,401
Treasurer	107,354	105,299	103,951	1,348
Building and grounds	68,126	80,012	77,237	2,775
Property rental	6,309	7,442	7,074	368
Public safety:				
Police	768,783	778,381	782,428	(4,047)
Fire	124,766	135,311	127,099	8,212
Crossing Guards	24,840	24,840	25,498	(658)
Building inspector	44,839	46,089	40,844	5,245
Public works:				
Street maintenance	306,376	333,067	320,905	12,162
Cemetery	162,912	151,650	144,603	7,047
Culture and recreation:				
Parks and recreation	35,197	39,197	37,778	1,419
Teen center	11,087	4,594	3,127	1,467
Transfers and other costs	106,150	638,833	668,903	(30,070)
Total expenditures	2,004,240	3,111,931	2,950,161	161,770
Excess of Revenue Over (Under) Expenditures	19,621	(1,088,070)	(355,075)	732,995
Other Financing Sources - Capital lease financing	-	-	20,365	20,365
Excess of Revenue and Other Financing Sources Over (Under) Expenditures	19,621	(1,088,070)	(334,710)	753,360
Fund Balance - Beginning of year	1,594,209	1,594,209	1,594,209	-
Fund Balance - End of year	<u>\$ 1,613,830</u>	<u>\$ 506,139</u>	<u>\$ 1,259,499</u>	<u>\$ 753,360</u>

Note - Budgetary Information

Budgetary Information - The annual budget is prepared by the City management and adopted by the City Commission; subsequent amendments are approved by the City Commission. The budgets are prepared on a basis consistent with generally accepted accounting principles except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as an "other financing source". Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2005 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

The budgetary comparison schedule - General Fund is presented on the same basis of accounting used in preparing the adopted budget.

The Front Street-Streetscape Fund is a Special Revenue Fund contained in the governmental funds statement of revenue, expenditures, and changes in fund balance. A budget was not developed for this fund for the year ended June 30, 2005 because the budgets were developed on a program basis and cover a period of more than 12 months. Therefore, the required supplemental information does not include a budgetary comparison schedule for this fund.

Excess of Expenditures Over Appropriations in Budgeted Funds - The City did not have significant expenditure budget variances.

Other Supplemental Information

City of Buchanan, Michigan

Special Revenue Funds						
	Major Streets	Local Streets	Street Repairs and Maintenance	Small Cities Program	Farmers' Market	Housing Grant
Assets						
Cash	\$ 2,368	\$ 4,547	\$ 175	\$ 304	\$ 4,467	\$ 5,824
Investments	309,043	202,170	124,894	95,639	25,081	30,000
Receivables - Net	705	706	-	-	-	421
Due from other governmental units	41,973	14,042	-	-	-	-
Total assets	<u>\$ 354,089</u>	<u>\$ 221,465</u>	<u>\$ 125,069</u>	<u>\$ 95,943</u>	<u>\$ 29,548</u>	<u>\$ 36,245</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 7,392	\$ 1,108	\$ -	\$ -	\$ -	\$ 30,000
Accrued and other liabilities	461	439	-	-	-	-
Deferred revenue	-	-	-	-	-	6,245
Total liabilities	7,853	1,547	-	-	-	36,245
Fund Balances	<u>346,236</u>	<u>219,918</u>	<u>125,069</u>	<u>95,943</u>	<u>29,548</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 354,089</u>	<u>\$ 221,465</u>	<u>\$ 125,069</u>	<u>\$ 95,943</u>	<u>\$ 29,548</u>	<u>\$ 36,245</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005**

Nonexpendable
Trust Fund

Cemetery Perpetual Care	Total Nonmajor Governmental Funds
\$ 6,124	\$ 23,809
308,775	1,095,602
213	2,045
-	56,015
<u>\$ 315,112</u>	<u>\$ 1,177,471</u>
\$ -	\$ 38,500
-	900
-	6,245
-	45,645
<u>315,112</u>	<u>1,131,826</u>
<u>\$ 315,112</u>	<u>\$ 1,177,471</u>

City of Buchanan, Michigan

	Special Revenue Funds					
	Major Streets	Local Streets	Street Repairs and Maintenance	Small Cities Program	Farmers' Market	Housing Grant
Revenue						
Property taxes	\$ -	\$ -	\$ 288,155	\$ -	\$ -	\$ -
Federal sources	-	-	-	-	-	72,018
State sources	259,496	86,799	-	-	-	-
Interest income	6,918	4,834	5,152	2,462	81	-
Other	349	351	-	-	-	-
Total revenue	266,763	91,984	293,307	2,462	81	72,018
Expenditures						
Routine street maintenance	62,878	56,247	-	-	-	-
Tree and shrub maintenance	34,244	40,453	-	-	-	-
Drainage	16,594	17,294	-	-	-	-
Traffic service maintenance	19,821	14,372	-	-	-	-
Winter maintenance	47,880	23,567	-	-	-	-
Administrative	13,439	13,452	-	-	-	-
Economic development	-	-	-	5,000	151	72,018
Public works	-	-	26,428	-	-	-
Debt service	25,171	-	-	-	-	-
Total expenditures	220,027	165,385	26,428	5,000	151	72,018
Excess of Revenue Over (Under)						
Expenditures	46,736	(73,401)	266,879	(2,538)	(70)	-
Other Financing Sources (Uses)						
Transfers in	91,382	117,987	-	-	29,618	-
Transfers out	(96,921)	-	(235,572)	-	-	-
Total other financing sources (uses)	(5,539)	117,987	(235,572)	-	29,618	-
Excess of Revenue and Other Financing Sources Over (Under)						
Expenditures and Other Uses	41,197	44,586	31,307	(2,538)	29,548	-
Fund Balances - Beginning of year	293,007	175,332	93,762	98,481	-	-
Residual Equity Transfer	12,032	-	-	-	-	-
Fund Balances - End of year	\$ 346,236	\$ 219,918	\$ 125,069	\$ 95,943	\$ 29,548	\$ -

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2005

Debt Service Funds		Nonexpendable Trust	
Michigan Transportation Act 175 - 1991/1993	Michigan Transportation Act 175 - 2000	Cemetery Perpetual Care	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 288,155
-	-	-	72,018
-	-	-	346,295
2	169	7,857	27,475
-	-	6,417	7,117
2	169	14,274	741,060
-	-	-	119,125
-	-	-	74,697
-	-	-	33,888
-	-	-	34,193
-	-	-	71,447
-	-	-	26,891
-	-	-	77,169
-	-	-	26,428
74,445	23,050	-	122,666
74,445	23,050	-	586,504
(74,443)	(22,881)	14,274	154,556
74,245	22,676	-	335,908
-	-	(5,627)	(338,120)
74,245	22,676	(5,627)	(2,212)
(198)	(205)	8,647	152,344
288	12,147	306,465	979,482
(90)	(11,942)	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 315,112</u>	<u>\$ 1,131,826</u>

City of Buchanan, Michigan

Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2005

	Agency Funds			
	Trust and Agency	Tax Collection	Repair and Demolition	Totals
Assets - Cash and investments	<u>\$ 38,847</u>	<u>\$ 18,062</u>	<u>\$ 144</u>	<u>\$ 57,053</u>
Liabilities				
Due to others	\$ -	\$ 17,630	\$ -	\$ 17,630
Due to other governmental units	-	432	-	432
Other liabilities	<u>38,847</u>	<u>-</u>	<u>144</u>	<u>38,991</u>
Total liabilities	<u>\$ 38,847</u>	<u>\$ 18,062</u>	<u>\$ 144</u>	<u>\$ 57,053</u>

City of Buchanan, Michigan

**Federal Awards
Supplemental Information
June 30, 2005**

City of Buchanan, Michigan

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Independent Auditor's Report

To the City Council
City of Buchanan, Michigan

We have audited the financial statements that collectively comprise the City of Buchanan, Michigan's (the "City") basic financial statements for the year ended June 30, 2005 and have issued our report thereon dated October 5, 2005. Those basic financial statements are the responsibility of the management of the City. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 5, 2005



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Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

To the City Council
City of Buchanan, Michigan

We have audited the financial statements of the governmental activities and each major fund information as of and for the year ended June 30, 2005 which collectively comprise the City of Buchanan's basic financial statements and have issued our report thereon dated October 5, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Buchanan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the City Council
City of Buchanan, Michigan

This report is intended solely for the information and use of the city council and management and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 5, 2005

Report on Compliance with Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in Accordance with
OMB Circular A-133

To the City Council
City of Buchanan, Michigan

Compliance

We have audited the compliance of the City of Buchanan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2005. The major federal program of the City is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of management. Our responsibility is to express an opinion on compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

To the City Council
City of Buchanan, Michigan

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the city council and management and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 5, 2005

City of Buchanan, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Federal Agency/Pass-through Agency/ Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
Department of Housing and Urban Development (HUD):				
Passed through Michigan Economic Development Corporation - Community Development Block Grant	14.228	MSC 202023-EDIG	\$ 700,000	\$ 566,564
Passed through Michigan State Housing Development Authority - Community Development Block Grant - Rental Rehab	14.228	MSC-2002-0388-MDC	278,659	69,035
Passed through Michigan State Housing Development Authority - Community Development Block Grant - Rental Rehab	14.228	MSC-2004-0388-MDC	243,900	30,000
Total 14.228			1,222,559	665,599
Passed through Michigan State Housing Development Authority - Home Investment Partnership	14.239	M-2001-388	167,000	2,299
Total Department of Housing and Urban Development (HUD)			1,389,559	667,898
U.S. Department of Transportation - Passed through the Michigan Department of Transportation - Operating Assistance	20.509	Section 5311	7,775	7,775
U.S. Department of Homeland Security	97.044	EMW-2004-FG-13975	46,440	46,440
Total federal expenditures			<u>\$1,443,774</u>	<u>\$ 722,113</u>

City of Buchanan, Michigan

Note to Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Note - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Buchanan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

City of Buchanan, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditor's report issued on compliance for major program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major program:

CFDA Number	Name of Federal Program
14.228	Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

City of Buchanan, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2005

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None



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Members of the City Commission
City of Buchanan
Buchanan, Michigan 49107

We recently completed the audit of the financial statements of the City of Buchanan for the year ended June 30, 2005. In connection with our audit, we offer the following comments and recommendations.

FINANCIAL OVERVIEW

During the year ended June 30, 2005, the City experienced a decrease in General Fund fund balance of approximately \$335,000. However, this was much better than had been budgeted, as expenditures were \$160,000 less than budgeted and revenue was \$570,000 more than budgeted. The General Fund was able to provide internal resources to assist with several significant City initiatives. On the whole, the City's other governmental funds performed strongly. Fund balance increased by a total amount of \$302,000 in these funds. Overall, the City's Governmental Funds Net Assets remain strong and total a healthy \$8.9 million (of which \$2.2 million is unrestricted). We compliment you, as City management, on your sound budgeting practices and planning processes. By maintaining a strong fund balance, the City is able to adjust to financial changes without the need for drastic reactions to adverse circumstances.

OLD OUTSTANDING CHECKS

During our testing of the June 30, 2005 bank reconciliation, we continued to note several old outstanding checks from previous years. We recommend that the City consider following up on these checks and making appropriate adjustments.

It is our understanding that the City's management has responded to this suggestion subsequent to our audit date.

COMMISSION MEETING MINUTES DOCUMENTATION

During our review of Commission meeting minutes, it came to our attention that dollar amounts of purchases and contracts approved by the Commission are often omitted from the final minutes. This practice undermines the Commission's ability to review minutes for approval of expenditures at a later date and weakens an important internal control. We strongly recommend that these amounts be included in the minutes as they are approved by the Commission.

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STATE SHARED REVENUE

State shared revenue accounts for approximately 33% City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to total state shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties statutory revenue sharing (the counties' only source of revenue sharing). Instead, the counties will change their property tax levy date for their operating millage from December to July (beginning in 2005). A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue sharing payments to cities, villages and townships for the State's 2004/2005 fiscal year at the prior year levels. This plan was recently approved by the Michigan legislature and signed by the Governor.

It is generally acknowledged that the State's budget woes will continue for several more years. In February 2005, the Governor issued an Executive Order, proposing no further cuts to revenue sharing. In addition, the Governor has also presented her fiscal year 2005/2006 budget, which includes a total "shortfall" of \$773 million. The 2005/2006 budgeted constitutional and statutory revenue sharing is approximately \$1.1 billion, which is basically the fiscal year 2004/2005 level. However, the revenue sharing act will require an amendment to accomplish distribution in this manner.

While governmental units might be tempted to budget for fiscal year 2005/2006 based on fiscal year 2004/2005 funding levels, there's still much to take place in the legislative process before this budget becomes law. In addition, there is continued uncertainty related to Michigan's economy despite the positive economic results experienced by other large states.

The table below details state shared revenue for the City over the past six years broken out by statutory and constitutional portions. In addition, it details the total decrease in state shared revenue experienced by the City compared to the State's fiscal year 2000.

State Fiscal Year	Statutory	Constitutional	Total	Increase (Decrease) from 2000
2000	\$ 502,588	\$ 338,529	\$ 841,117	\$ -
2001	\$ 535,763	\$ 303,761	\$ 839,524	\$ (1,593)
2002	\$ 492,652	\$ 306,854	\$ 799,506	\$ (41,611)
2003	\$ 436,891	\$ 312,049	\$ 748,940	\$ (92,177)
2004	\$ 364,452	\$ 308,660	\$ 673,112	\$ (168,005)
2005	\$ 349,749	\$ 316,026	\$ 665,775	\$ (175,342)

Lastly, while it's good news that revenue sharing may be maintained at current levels, revenue sharing for fiscal year 2004/2005 and fiscal year 2005/2006 is more than \$500 million less annually than amounts provided for in law and based on actual sales tax collections. Based on the State's current budget situation, a return to past funding levels is not likely in the foreseeable future. We will continue to update the City as developments occur.

RETIREE HEALTH CARE BENEFITS

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government wide financial statements, rather than the individual fund level. Therefore, the manner in which retiree health care benefits are budgeted will not change, unless you begin funding the benefits (however, as discussed below, there are incentives to do so).

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any under funding must be reported as a liability on the government wide statement of net assets.

This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year.

This statement is being phased in over a three year period, similar to GASB 34. It is effective for fiscal years beginning after December 15, 2006, 2007 or 2008 depending on whether your revenues are over \$100 million, between \$10 million and \$100 million, or under \$10 million. Therefore, the pronouncement is effective for the City's fiscal year 2010. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates.

The GASB statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the normal fairness issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year's contribution. So funding the contribution will actually reduce your long run cost.

We appreciate the courtesy and cooperation extended to us by you and members of your organization during the audit. We appreciate the opportunity to present these recommendations for your consideration and would be pleased to discuss them further at your convenience.

Plante & Moran, PLLC

October 5, 2005